

## Message Text

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ORIGIN SS-15

INFO OCT-01 ISO-00 /016 R

66617

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C O N F I D E N T I A L STATE 134950

EXDIS FOR ASSISTANT SECRETARY ENDERS

FOLLOWING REPEAT STATE 134950 SENT KUWAIT INFO CIARO JIDDA  
DATED JUNE 10.

QUOTE

C O N F I D E N T I A L STATE 134950

EXDIS

E.O. 11652: GDS

TAGS: EAID, EGEN, EGY

SUBJECT: EMERGENCY ECONOMIC ASSISTANCE TO EGYPT

REFERENCE: KUWAIT 2418

FOR CHARGE

1. WE THINK TIME NOW APPROPRIATE FOR YOU TO FOLLOW UP ON  
EGYPTIAN AND SAUDI APPROACHES ON KUWAITI PARTICIPATION FOR  
EMERGENCY ASSISTANCE TO EGYPT.

2. IN TERMS OF HOW WE VIEW EGYPT'S NEEDS YOU MAY WISH TO  
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DRAW ON THE FOLLOWING INFO:

A. EGYPT IS EXPERIENCING A SEVERE BALANCE OF PAYMENTS  
PROBLEM RESULTING FROM (1) DEPRESSED MARKET AND PRICES FOR

COTTON AND RISING PRICES OF INDUSTRIAL GOODS IMPORTS; (2) NECESSARY INCREASES IN IMPORTS OF INDUSTRIAL RAW MATERIALS AND OTHER PRODUCTION GOODS AND EQUIPMENT REQUIRED TO RAISE INDUSTRIAL PRODUCTIVITY; (3) NECESSARY INCREASES IN IMPORTS OF CONSUMER GOODS REQUIRED TO OFFSET CROP FAILURES AND EXPAND RATIONS; AND (4) HEAVY CARRYING CHARGES ON FOREIGN COMMERCIAL BANK CREDITS AND THE NECESSITY OF MAKING NET REPAYMENTS THIS YEAR ON SUCH CREDITS.

B. THE BALANCE OF PAYMENTS DEFICIT CANNOT BE SUBSTANTIALLY OFFSET BY DRAWING DOWN FOREIGN EXCHANGE RESERVES, AS EGYPT'S RESERVES ALREADY HAVE DECLINED TO A MINIMUM LEVEL REQUIRED FOR NATIONAL SECURITY. THE OPTION OF CUTTING BACK SHARPLY ON IMPORTS OF INTERMEDIATE GOODS IS UNACCEPTABLE AS THIS WOULD WEAKEN INDUSTRIAL RECOVERY AND PROLONG DEPENDENCE ON IMPORTS OF CONSUMER GOODS.

C. EGYPT'S FOREIGN EXCHANGE BUDGET, BASED ON FUNDING REQUIRED TO OPEN LETTERS OF CREDIT AND TO SERVICE DEBT, PROJECTS A DEFICIT ON INTERNATIONAL TRADE AND SERVICE ACCOUNTS IN 1975 OF ABOUT 1,400 MILLION EGYPTIAN POUNDS (LE 1,400 MILLION). THIS IS HIGHER THAN THE DEFICIT CALCULATED ON THE CONVENTIONAL CENTRAL BANK PAYMENTS BASIS, BUT IT IS THE MORE ACCURATE MEASURE OF THE FOREIGN EXCHANGE REQUIRED TO OPEN LETTERS OF CREDIT IN AN EXPANDING IMPORT PROGRAM. IN ADDITION, DEBT SERVICE DUE ON LONG AND MEDIUM TERM DEBT (INCLUDING LE 192 MILLION IN NET PAYMENTS ON BILATERAL AGREEMENT ACCOUNTS) AMOUNT TO ABOUT LE 400 MILLION IN 1975. THE TOTAL DEFICIT OF APPROXIMATELY LE 1,800 MILLION IS ASSUMED TO BE FINANCED TO THE EXTENT OF ABOUT LE 1,075 MILLION BY FOREIGN ASSISTANCE GRANTS AND LOANS AND MEDIUM AND LONG TERM SUPPLIER CREDITS (OF WHICH MORE THAN LE 100 MILLION IN ASSUMED ADDITIONAL GRANTS HAD NOT ACTUALLY BEEN COMMITTED AS OF JUNE 1, 1975). THUS, THE NET DEFICIT IS ABOUT LE 730 MILLION, EQUIVALENT TO ABOUT US DOLS. 1,800 MILLION.

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D. THE GOVERNMENT OF EGYPT INTENDS TO TAKE THE FOLLOWING MEASURES TO REDUCE THE DEFICIT: (1) DEFER CERTAIN CAPITAL GOODS IMPORTS, YIELDING A SAVING IN DOWN PAYMENTS; (2) LIMIT DEBT SERVICE TO FOREIGN OFFICIAL CREDITORS OVER THE NEXT 12 MONTHS TO THE AMOUNT OF NEW CIVIL CREDITS PROVIDED BY EACH SUCH CREDITOR; (3) SELECTIVELY REDUCE OR DEFER IMPORTS OF INTERMEDIATE AND CONSUMER GOODS DURING THE REMAINDER OF 1975. THESE MEASURES SHOULD IN THE AGGREGATE REDUCE THE DEFICIT TO ABOUT LE 350 - LE 400 MILLION, THE EQUIVALENT OF ABOUT US DOLS 900 MILLION AND DOLS 1,000 MILLION.

E. THE NEW CABINET HAS UNDERTAKEN EXTENSIVE REVIEWS OF

THE IMMEDIATE AND LONGER TERM FINANCIAL OUTLOOK AND OF BOTH POLICY AND ADMINISTRATIVE MEASURES REQUIRED TO REDUCE EGYPT'S DEPENDENCE UPON FOREIGN FINANCING OF CURRENT IMPORTS. THE GOVERNMENT IS CONSULTING WITH TECHNICAL EXPERTS OF THE IBRD ON MEASURES TO IMPROVE THE MANAGEMENT AND ALLOCATION OF FOREIGN EXCHANGE. THE ADVICE OF THE IMF ALSO HAS BEEN SOUGHT. ONCE THE IMMEDIATE BALANCE OF PAYMENTS DEFICIT HAS BEEN CLOSED BY THE MEASURES INDICATED ABOVE AND BY THE RECEIPT OF ADDITIONAL OFFICIAL FINANCIAL ASSISTANCE, THERE ARE GOOD PROSPECTS OF OBTAINING RE-

FINANCING ON MEDIUM TERM OF MUCH OF THE ACCUMULATED SHORT-TERM COMMERCIAL DEBT. THE MEDIUM AND LONGER TERM OUTLOOK FOR THE ECONOMY IS MORE FAVORABLE, WITH PROSPECTS OF SUBSTANTIAL EXPANSION OF DOMESTIC PRODUCTION OF PETROLEUM, INDUSTRIAL AND AGRICULTURAL GOODS, RECOVERY OF EXTERNAL DEMAND FOR EGYPTIAN COTTON AND OTHER EXPORTS, AND INCREASED FOREIGN EXCHANGE EARNINGS FROM THE REOPENED SUEZ CANAL AND TOURISM. CONSEQUENTLY, IT CAN BE REASONABLY EXPECTED THAT RISING PROPORTIONS OF FOREIGN CAPITAL FLOWS TO EGYPT, IN 1976 AND THEREAFTER, CAN BE INVESTED IN NEW PRODUCTIVE CAPACITY AND SUPPORTING INFRASTRUCTURE.

F. IN ORDER TO CLOSE THE GAP IN AVAILABLE FINANCING OF ESSENTIAL CURRENT IMPORTS DURING THE REMAINDER OF 1975, THE GOVERNMENT OF EGYPT IS ASKING INTERESTED FOREIGN GOVERNMENTS AND INTERNATIONAL AGENCIES FOR ADDITIONAL FINANCIAL ASSISTANCE IN FORMS APPROPRIATE TO THIS NEED AND CONFIDENTIAL

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ON TERMS APPROPRIATE TO EGYPT'S DIFFICULT ECONOMIC SITUATION. AS EXPLAINED ABOVE, APPROXIMATELY US 1 BILLION DOLLARS WILL BE NEEDED OVER THE NEXT SIX MONTHS, AND A SUBSTANTIAL PART OF THIS AMOUNT IS NEEDED IMMEDIATELY SO AS TO PREVENT WASTEFUL INTERRUPTION OF IMPORT PROCUREMENT PROGRAMS AND FURTHER DAMAGE TO EGYPT'S INTERNATIONAL CREDIT.

3. YOU MAY WISH TO NOTE THAT THE EGYPTIANS HAVE USED LARGER NUMBERS THAN THE 900 MILLION DOLLARS TO ONE BILLION DOLLARS FIGURE BUT WE ARE NOT SURE WHAT REQUIREMENTS THE EGYPTIANS ENVISAGE IN THESE LARGER NUMBERS. WE THEREFORE ARE WORKING ON THE BASIS OF A MINIMUM REQUIREMENT OF 900 MILLION TO ONE BILLION IN NON-PROJECT FINANCING OF GENERAL IMPORTS ON LIBERAL TERMS.

4. YOU SHOULD ALSO STRESS THE IMPORTANCE THAT THE UNITED STATES GIVES TO THIS EFFORT AND NOTE THE ACTIVE ROLE WE ARE CONTINUING TO PLAY IN ENCOURAGING NON-ARAB GOVERNMENTS TO PARTICIPATE. UNDER SECRETARY ROBINSON WILL BE HAVING FURTHER TALKS WITH THE IRANIAN FINANCE MINISTER IN PARIS THIS WEEK AS WELL AS TALKS WITH THE FRG AND INITIAL DIS-

CUSSIONS WITH THE FRENCH ON THE SAME TRIP. AS THE KUWAITIS ARE ALREADY AWARE, WE HAVE HAD SEVERAL DISCUSSIONS ALREADY WITH THE JAPANESE ABOUT THEIR PARTICIPATION.

5. WE BELIEVE THE MINIMUM KUWAITI CONTRIBUTION SHOULD BE 150 MILLION DOLLARS. YOU SHOULD CONVEY OUR CONCERN FOR THIS MINIMUM FIGURE IF IT APPEARS THE KUWAITIS ARE THINKING IN LOWER FIGURES. IN

YOUR CONVERSATIONS, YOU SHOULD NOTE IF APPROPRIATE THAT ASSISTANCE SHOULD CLEARLY BE ADDITIONAL TO AMOUNTS ALREADY FORMALLY LOANED TO EGYPT, SHOULD BE FOR BROAD RANGE OF GENERAL IMPORTS RATHER THAN PROJECT FINANCING, AND SHOULD BE ON LIBERAL REPAYMENT TERMS.

6. YOU SHOULD NOTE THAT THE UNITED STATES EXPECTS TO PROVIDE 250 MILLION DOLLARS FOR THIS EMERGENCY ASSISTANCE. US AID WILL BE PL-480 CREDITS AND AID COMMODITY IMPORT LOANS, THE LATTER FOR INDUSTRIAL AND AGRICULTURAL EQUIP-  
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MENT, RAW MATERIALS AND BASIC CONSUMER GOODS. THE US IS WILLING TO OFFER MOST LIBERAL TERMS (40 YEARS WITH 10 YEAR GRACE AND 2 TO 3 PERCENT INTEREST) IF OTHERS PROVIDE SIMILAR TERMS.

7. WE ALSO BELIEVE THAT EACH PARTICIPANT IN THEIR BILATERAL DISCUSSIONS WITH THE EGYPTIANS SHOULD OBTAIN ASSURANCE THAT (A) NO NET REPAYMENTS TO MAJOR FOREIGN GOVERNMENT CREDITORS WILL BE MADE IN NEXT 12 MONTHS AND (B) GOE WILL OBTAIN TECHNICAL ASSISTANCE FROM THE IBRD IN DEVISING MORE EFFECTIVE SYSTEM OF FOREIGN EXCHANGE MANAGEMENT.

8. IN EXPLAINING THE SUBSTANCE OF PARAGRAPH SIX ABOVE YOU SHOULD NOTE THAT WE MUST GO TO CONGRESS FOR THAT PORTION OF THE EMERGENCY 1975 CONTRIBUTION WHICH IS TO BE DRAWN FROM FY1976 AID AND PL 480 ACCOUNTS. THIS IS WHY WE CANNOT MAKE EXPLICIT PUBLIC COMMITMENTS AT THIS TIME.  
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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 26 AUG 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC ASSISTANCE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 11 JUN 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** greeneet  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975STATE134950  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** EB:NLPAZDRAL  
**Enclosure:** n/a  
**Executive Order:** 11652 GDS  
**Errors:** n/a  
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**Handling Restrictions:** n/a  
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**Locator:** TEXT ON-LINE, TEXT ON MICROFILM  
**Office:** ORIGIN SS  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** EXDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** greeneet  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 MAY 2003 by MartinML>; APPROVED <01 OCT 2003 by greeneet>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** n/a  
**TAGS:** EAID, EGEN, EG  
**To:** OECD PARIS  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006